

## February Monthly Commentary

Mar. 1, 2017

### Stock Market & Portfolio Performance

**February 2017:** Stocks had a great month, especially large-cap U.S. stocks. Meanwhile, bonds were up modestly.

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		<u>Feb 2017</u>	<u>YTD 2017</u>	<u>Description:</u>
Without Dividends:				
	S&P 500	3.7%	5.6%	500 Largest Public U.S. Companies
	Russell 2000	1.8%	2.2%	2000 of the smallest U.S. stocks
	MSCI EAFE	2.6%	5.0%	international stock index
	U.S. Aggr Bond	0.7%	0.9%	index of U.S. bonds
With Dividends, after all fees:				
	MAM portfolios	2.4%	4.2%	non-very conservative MAM portfolios
	MAM Conserv	1.5%	2.3%	portfolios with 50%+ bond allocation

*The returns showed above are unaudited. Past performance is not indicative of future results. Returns for McCarthy Asset Management Portfolios ("MAM Portfolios") are net of management fees and transaction costs, and reflect the reinvestment of dividends. Results represent a composite of clients using a similar investment strategy, individual results will vary.*

*Returns for the indices are provided solely as a general indication of current market conditions. MAM Portfolios are not invested in a style substantially similar to any index. Indices do not reflect the deduction of management fees or transaction costs or the reinvestment of dividends. Performance for the indices would be lower if these costs were reflected.*

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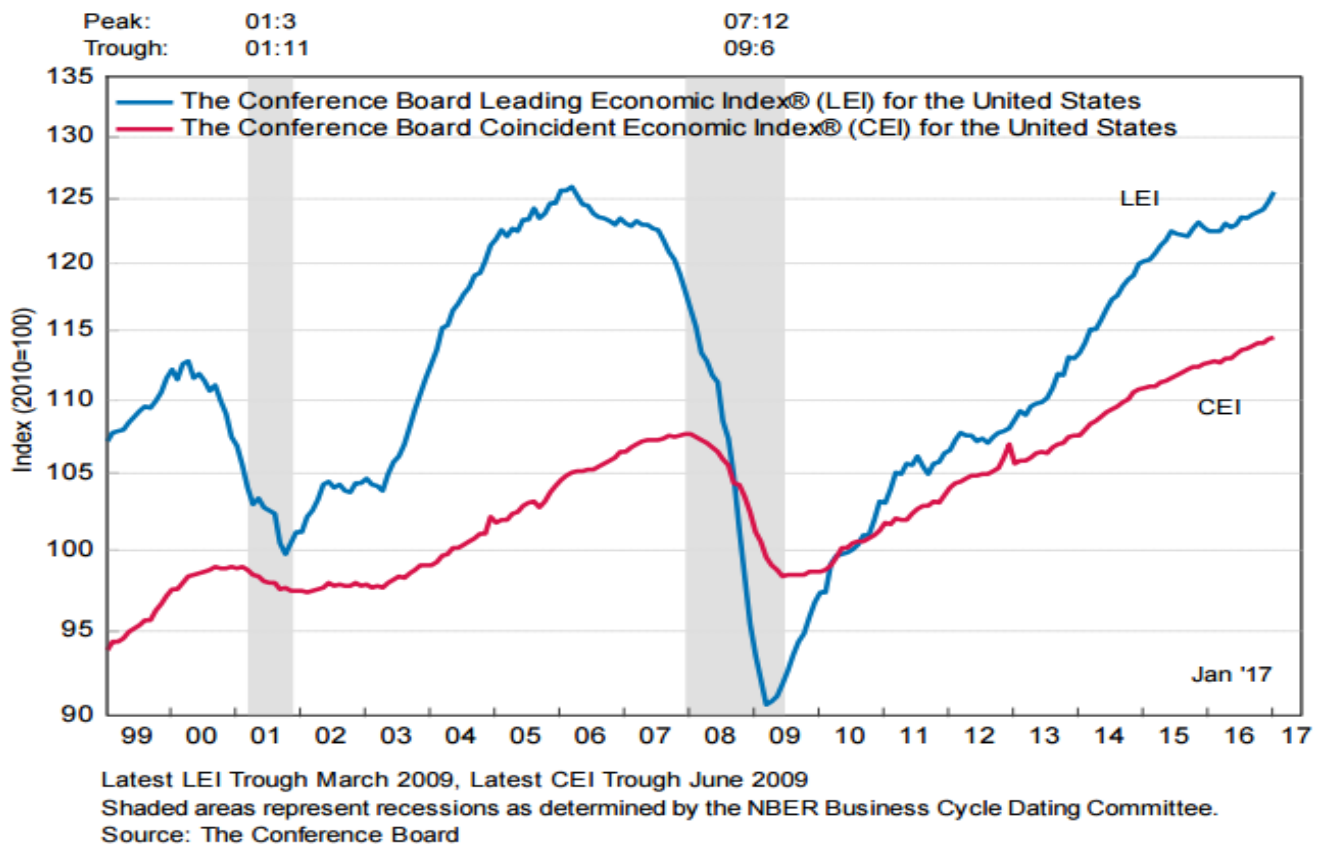
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The current bull market, which started in March of 2009, is about to reach its eighth birthday. It is one of the greatest runs in Wall Street history, with the S&P 500 gaining nearly 250%. How much longer can we expect this to continue? Fortunately, bull markets do not die of old age. Rather there are typically a set of one or more factors that cause a bull market to morph into a bear market. Let's review where we stand with them:

1. **An Increased Risk of a Recession** is important as bear markets are often associated with an economic recession. This risk can be recognized in several ways. Probably the best is a downturn in the Conference Board's Leading Economic Index, which consists of 10 components that typically lead the economy and provide an early warning of the risk of a recession. As can be seen from the graph below, both the Leading Economic Index (LEI) and the Coincident Economic Index (CEI) have been on a strong upturn since 2009. As such, there is little risk of a recession for at least the next year.

**The Conference Board Leading Economic Index® (LEI) for the U.S. Increased in January**



2. **Unfavorable Monetary Policy** is primarily driven by a Federal Reserve policy to increase interest rates to keep inflation at bay. After dropping interest rates to near historical lows since 2009, the Fed increased rates by 0.25% both at the end of 2015 and 2016. While rates are still very low, two or three additional increases are anticipated for 2017. A sharp uptick in inflation or further interest rate increases in 2018 or later could present a headwind for the economy and the stock market.
3. **Overvaluation** is a potential concern. Stocks are now expensive with markets at all-time highs and corporate earnings just starting to recover. Investors are currently paying more than 21 times what companies in the S&P 500 earned over the past 12 months, compared to an average of 18.8 since 1988. But with interest rates low and the economy healthy, investors can justify paying higher valuations for stocks. Furthermore, corporate earnings growth has resumed with analysts projecting an increase in 2017 of more than 10% over 2016.

4. **Extreme Optimism** can be measured by various investor confidence/sentiment surveys. Recent results have shown fairly high levels of bullishness, which is a concern if investors are becoming complacent and greedy. A healthy, short-term market correction may be needed to keep investor optimism from becoming a bigger concern.

5. **Narrowing Market Breadth**, as measured by the Advanced-Decline Line (i.e. number of advancing stocks relative to number of declining stocks), is one of the most reliable bear market warning flags. An unhealthy sign is if the market is advancing to new highs without broad participation of most stocks. While so far in 2017 the performance of the small cap Russell 2000 index has lagged that of the large-cap S&P 500, in a bullish sign, it did recently reach all-time highs.

**In summary**, it's encouraging that most of the bear market indicators are indicating that further gains lie ahead. Nonetheless, with the significant stock market advance since the November Presidential Election, investor sentiment approaching warning levels and market valuations appearing rich, it may be time for a healthy, short-term market correction. While at MAM we don't try to market time these short-term market movements, such a correction could provide a better environment for further gains ahead. If, on the other hand, stock prices continue their relentless climb, we will consider adding additional downside protection to portfolios by this summer.

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## How to Choose a Trustee by Robert J. Silverman, Esq.



Establishing a Revocable Living Trust for yourself and your family is worthwhile for many reasons I've written about previously, including: avoiding probate; maintaining privacy; controlling when and how young loved ones inherit assets; estate tax mitigation; etc. Perhaps the most compelling reason is to create a "financial succession" vehicle, optimized to ensure that your assets are handled the way you want, both during your life and after you're gone.

A Revocable Living Trust ("Trust") has three "stakeholders": 1) the Settlor [aka "grantor" or "trustor"] – the person(s) who establishes the trust; 2) the Beneficiaries – the people who benefit from the trust; and 3) the Trustee – the person who manages the trust. As long as a Settlor is willing and able, he or she (or if a married couple, they) typically serves as initial Trustee(s).

A much more difficult but important question is who should serve as Successor Trustee(s) and thus manage the Trust – the bulk of the Settlor's financial affairs - when the Settlor(s) die or become unwilling or unable to do so. This has many implications. It should be thought through carefully and discussed in detail with your estate planning attorney. One should also consider the pros and cons of naming the chosen Successor Trustees in other critical estate planning documents, such as your Durable Power of Attorney and Will.

First, it's critical to step back and ask what the appropriate criteria is for choosing a Successor Trustee. It depends on all relevant facts and circumstances, including the makeup of the Settlor's family, loved ones, assets, and objectives.

Certain criteria are intuitive, including trustworthiness. Aside from whether or not a candidate is trustworthy, is he or she responsible - the type of person who gets up in the morning and takes care of business? Geographic proximity can be a factor, but tends to be less important now because of technology advances that facilitate the management of assets from afar. Emotional character and personality should be assessed since one or more trust Beneficiaries (who are often related to the Successor Trustee) may try to manipulate the Successor Trustee. For example, a Beneficiary may request (and/or persuade) the Successor Trustee to exercise certain Trustee-authorized discretion in a manner that may not ultimately be in the best interest of that Beneficiary.

Much too frequently, a quick, "painless" decision is made by summarily nominating one's spouse, oldest child, or all children as Co-Trustees. Such haste may lead to problems, if not disaster. Choosing Co-Trustees, even when they consist of all of your children, is often problematic because of the logistics or because of the required compatibility and cooperation involved in making Trust decisions (e.g. how, when or whether to sell or divide certain cherished assets). Family relationships can be devastated as a result of a Settlor not taking ample care in deciding who is truly best suited to serve as Successor Trustee. This decision is often more sensitive and difficult when married settlors have a blended family.

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## How to Choose a Trustee by Robert J. Silverman, Esq.— Con't

Sometimes, neither relatives nor friends are the best candidates. Many financial institutions have reputable trust departments, with capable, seasoned trust officers who can potentially carry out a Settlor's wishes most objectively, safely and effectively. Another alternative is to choose an experienced, "private fiduciary" – an individual who is properly licensed and bonded, whose job entails serving as Successor Trustee for many different family trusts.

As with many important decisions, your trusted professional advisors should help you make this decision. Certainly your estate planning attorney should be directly involved. If you wish, other advisors, such as your CPA and/or investment manager, can sometimes provide helpful counsel.

\* Estate Planning \* Trust Administration & Probate \* Real Estate \* Business

Please contact the author to request a complimentary: i) "Estate Planning Primer"; ii) Real Estate titling brochure; iii) introductory meeting.

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*This article is intended to provide information of a general nature, and should not be relied upon as legal, tax and/or business advice. Readers should obtain specific advice from their own, qualified professional advisors.*

## How to Obtain Your Social Security Statement



Remember those Social Security statements you used to receive in the mail? In a cost-cutting move, the Social Security Administration (SSA) stopped mailing them in 2011. After complaints from many taxpayers, in 2014 Congress pressured the SSA to start sending out statements again every five years. This past month, though, the SSA announced in another cost-saving move that it will mail fewer statements. **Paper statements will now only be sent to people age 60 and over, who are not getting benefits and don't have a My Social Security account.**

Because most of you won't be receiving this important information in the mail, we recommend that once a year you log onto the "My Social Security" website and download a copy of your statement. If you don't already have an account at this site, it is easy to create one.

Your statement will include valuable information about your estimated retirement, disability and survivors' benefits at various ages. The benefit estimate is based on your past earnings and a projection of your future income, which assumes your income will remain at the same level as the previous year until you retire. You could receive more than the estimate if you end up earning more in the future or less if your income drops.

The statement also includes your earnings record and the total Social Security and Medicare taxes you and your employers have paid over your working career. We recommend that you carefully review "Your Earnings Record" because it's not uncommon to find that earnings from certain employers or years are missing. If that's the case, ask the SSA to fix the errors. Unless the omissions are corrected, you could receive lower benefits than you are entitled to.

Sincerely,

*Stephen P McCarthy, CPA, CFP®*

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## Our Services

McCarthy Asset Management, Inc. (MAM) is an independent, privately owned Registered Investment Advisor firm. We provide clients with the peace of mind that comes from knowing professionals are managing their financial affairs. The services we offer include:

### Investment Management Services:

- MAM creates and manages customized investment portfolios based on each client's investment objectives, timeframe and risk tolerance.

### Financial Planning Services:

- The Net Worth Analysis (NWA) tracks the accumulation of Invested Assets for pre-retirees and the retention of Invested Assets for retirees. Updated annually.
- "Retirement Analysis" a comprehensive analysis of your retirement goals, which produces easy-to-read, interactive working plan, stored in the cloud. Updated as needed for life events.
- Social Security Planning is an analysis of the best strategy for when and how to start claiming Social Security benefits.

Tax Services: Clients have the option of utilizing the income tax services provided through the firm Stephen P. McCarthy, CPA. These services are offered at an hourly rate and may include:

- Tax Return Preparation
- Income Tax Projections
- Tax Minimization Ideas
- Tax Authority Representation

**Other Services:** MAM has retained outside experts, whose services are available at no cost to our clients:

- Long Term Care Planning– Allen Hamm of Superior LTC Planning Services, Inc.
- Medicare Advisory Program (MAP) - Eileen Hamm

## Reminders/Updates

ADV Part II: You were provided a copy of our ADV Part II when you became a MAM client. As a Registered Investment Advisor, we file this document with the Securities and Exchange Commission. Along with other items, it contains information regarding our fees and our educational backgrounds. Each year, the SEC requires us to offer clients the opportunity to receive a copy of our most recent ADV Part II. Please let us know if you would like to receive a copy.



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